

Board Roles in Nonprofit Sport Organisations with a Dual Board System

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ABSTRACT

Governance is a critical component of the effective management of a nonprofit sport organisation. Boards in this governance system play an important role to guide their organisations. While a number of agencies have provided documents of what boards should perform in their organisations, these documents remain descriptive. Empirical research on board roles particularly in a dual board system has been deficient. The purpose of this research therefore was to empirically investigate board roles in nonprofit sport organisations with a dual board system in Taiwan. 158 directors and 103 supervisors from 24 nonprofit sport organisations completed questionnaire regarding board roles. Two factor analyses were conducted. A 20-variable/4-factor scale of roles of directors and a 9-variable/2-factor scale of roles of supervisors were generated. Several conclusions were made based on results of this study.

Keywords: nonprofit sport organisation; board roles; directors; supervisors

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INTRODUCTION

Governance has been identified as an influential dimension in the relative performance of sport organisations because of its pivotal role in setting policy and direction for the organisation (Ferkins, Shilbury, & McDonald, 2005; Hoye, 2006; Hoye & Auld, 2001). In a governance system, the board carries the critical responsibility of ensuring that the activities of the organisation are carried out in the best interests of the organisation (Australian Sports Commission, 2005). The importance of governance has been well-recognized by government bodies that fund and support sport organisations and by sport organisations themselves, and models of good governance are eagerly sought. While there are a number of prescribed rules outlining the parameters of board roles in sport organisations (Australian Sports Commission, 2005; European Olympic Committee, 2001), the ‘real’ roles of board members of sport organisations may or may not be similar to these generic descriptions. Empirical investigations of board governance in sport organisations have recently begun to emerge as the industry tries to grapple with the nuances of board governance (Ferkins et al., 2005; Forster, 2006; Inglis, 1997; Shilbury, 2001). This work is important as it has provided a framework of how boards perform in sport organisations.

However, research to date has only examined board roles of nonprofit sport organisations with a unitary board; that is where there is only a board of directors. Board roles of nonprofit sport organisations with a dual board system, namely where there is a board of directors and a board of supervisors, have not been examined. The purpose of the current research was to empirically investigate the dual system and the roles of both directors and supervisors in nonprofit sport organisations to better understand this form of governance.

BOARD ROLES

Researchers from different disciplines have provided information regarding board roles, including, board roles in profit organisations, (Blair, 1995; Clarkson, 1995; Fama & Jensen, 1983; Huse, 2005; Lynall, Golden, & Hillman, 2003; McNulty & Pettigrew, 1999), nonprofit

organisations (Cadbury, 2002; Carver, 1997; Houle, 1989; Pointer & Orlikoff, 2002) and sport organisations (Australian Sports Commission, 2005). Table 1 summarizes board roles in different types of organisations. While these roles are provided by researchers from different industries, they share a number of characteristics and have little difference. For example, board members are asked to involve in strategy management and to appoint and reward executives. In addition, these roles are mainly normative and academic, little research has empirically investigated board roles.

Insert Table 1 Here

Empirical investigations of what board members actually do in their sport organisations has provided a basis for our current understanding of board roles (Inglis, 1997; Shilbury, 2001). Inglis's (1997) study of executive directors, board presidents and board members of Canadian Provincial sport organisations and grouped board roles into four factors and 16 items. The four key roles were: 1. *Mission*—ethical responsibilities, following charters, and keeping policies in line with mission; 2. *Planning*—financial policy, budget allocations, human resources and long-range plans and strategies; 3. *Executive Director*—hiring and monitoring of the executive directors as well as concern for fulfilling legal responsibilities; and 4. *Community Relations*—developing and delivering specific programs and services, representing the interest of certain groups, raising funds, and promoting advocacy and community relations. Notably, there was a significant difference in the perception of importance and performance for the board roles between paid staff and board members and male and female members. In Australia, Shilbury (2001) concluded that strategy, developing financial policies and budgeting were perceived as the most important board roles in sport organisations. Paid staff were found to have influence over issues that were historically the purview of the board. These two studies and others have contributed to our understanding of board roles in a unitary governance structure; however, we still know little about board roles in sport organisations outside Western countries and in those with a dual board system.

According to the Civil Organisation Law, Taiwanese nonprofit sport organisations are asked to build a board of directors and a board of supervisors. The maximum number of the

board of directors of nonprofit sport organisations at the national level is thirty-five. The maximum number of the board of supervisors is one-third of the number of the board of directors. Board members are elected by organisational members and board chairs are elected by board members. The Civil Organisation Law does not stipulate the roles of the board of directors and the board of supervisors but request civil organisations to regulate these roles. Researchers have called for future studies on nonprofit board governance in Taiwan (Hsiao, 2000; Tseng, 2002).

Moreover, the board structure in China, Germany, Japan, and Netherlands is also characterized by a dual board system. One characteristic of the dual board system is that this system relies on supervisory board to monitor the board of directors (Rose, 2005). It has revealed that insufficient supervision of management can lead to a loss of stakeholder and financial scandals, such as Enron and Tyco (Rose, 2005). According to the German Corporate Governance Code, the board of directors is responsible for managing its company and the supervisory board provides supervision and advice. Both boards are separated from each other (Nietsch, 2005). People in German usually expect that supervisors play a role in monitoring organisations. Therefore, when a company fails, supervisors are usually been criticized regardless of whether or not the criticism is right (Schilling, 2001). In addition, Cooke and Sawa (1998) studied governance structure of profit organisations in Japan. Under Japanese Commercial Code, companies should have a board of directors and a board of supervisor. The status of the board of supervisors is similar to the board of directors. Companies are asked to have three or more statutory auditors (supervisors) if these companies whose amount of capital is and more than 500 million yen. While there is an increasing research into organisations with dual board system (Cooke & Sawa, 1998; Dahya, Karbhari, Xiao & Yang, 2003; Maassen & van den Bosch, 1999; Rose, 2005; Schilling, 2001), more research is needed (Dahya et al., 2003; Turnbull, 1997). Particularly, among these few studies, little attention is placed on nonprofit organisations with a dual board system. Thus, using the existing literature as foundational knowledge we investigated the nature of board roles in the dualistic board system found in Taiwanese nonprofit sport organisations.

METHODOLOGY

The National Council of Physical Fitness and Sports, R.O.C. (Taiwan) lists 70 nonprofit sport organisations established according to Taiwan's Civil Organisation Law. All these organisations have a board of directors and a board of supervisors. All 70 organisations were contacted and 24 organisations demonstrated their willingness to participate in this research. A questionnaire of board roles was devised based on Inglis, Alexander and Weaver's (1999) framework. The instrument contains three factors and 14 roles which were developed from previous literature and from personal work experience (Axelrod, 1994; Bradshaw et al., 1992; Carver, 1990; Dunlop, 1989; Harris, 1993; Harvey & Zamparo, 1994; Heimovics & Herman, 1990; Herman, 1985; Houle, 1989; Inglis, 1997; Widmer, 1993). Data on the gender, age and education of respondents and years of service on the board were also collected to delineate the profile of respondents.

The questionnaire was initially designed in English and then translated into the local language through backward and forward translations (Hayashi, Suzuki, & Sasaki, 1992). A focus group interview was then conducted to assess content and clarity of the questionnaire. Two directors, two supervisors and two general secretaries from six different nonprofit sport organisations were invited and asked to provide feedback on the questionnaire. Modifications to the questionnaire were made by the researcher based on interviewees' comments. As a result, the questionnaire of roles of directors had 21 questions; 10 questions about the roles of supervisors. A pilot was conducted and further modifications were made to improve the wording and clarity of the questionnaire. Participants of the focus group interview and pilot were not included in the following data collection phase. The final version was distributed to directors and supervisors via the participating organisations in December, 2006. Respondents completed questionnaires with 5-point scales (1=Strongly Disagree) to measure the degree they fulfilled each roles. A total of 158 directors and 103 supervisors completed the survey.

This study was part of a large research and factor analysis was the first stage of this large research. 24 organisations from 70 organisations listed by the National Council of Physical

Fitness and Sports, R.O.C. (Taiwan) took part in the first stage. 25 organisations from the same 70 organisations participated in the following stages of this research. 202 directors and 102 supervisors from these 25 organisations took part in the research and they could be viewed as non-respondents for the first stage. The chi-square test was conducted to compare respondents and non-respondents in terms of three demographic data, including gender, age and education level. Chi-square analysis showed there was no significant difference between directors and supervisors from two research stages respectively.

RESULTS AND DISCUSSION

Within the 24 nonprofit sport organisations the total number of directors and supervisors were 710 and 220 respectively. We obtained valid questionnaire responses from 158 directors (22.2%) and 103 (46.8%) supervisors. The characteristics of respondents are summarized in Table 2. Directors were mainly male (93.7%) with only 6.3% female directors (n=10). Similarly, the majority of supervisors were male (n=95) with 92.2% and female supervisors (n=8) only 7.8%. The majority of directors and supervisors were over the age of 50 years (65.8 % and 65.1 % respectively). The number of directors and supervisors under the age of 34 years was minimal.

Insert Table 2 Here

More than half of directors (65.1%) and supervisors (62.1%) had held their position over four years. The most common duration categories were 1 year to under 4 years together with the 4 years-under 8 years for directors. For supervisors 1 years-4 years was most common, followed by 4 years- under 8 years. The data indicated that most directors and supervisors did not hold their positions for more than 8 years. In other words, most board members were elected for two consecutive terms. Regarding education level 27.3 percent of directors and 27.2 percent of supervisors reported high school was their highest level of education and 34.2 percent of directors and 23.3 percent of supervisors had got a higher degree than the college/university degree. Overall, most board members regardless of directors (72.8%) or supervisors (68.9%) had higher education qualifications. Chi-square analysis of gender ($\chi^2 (1) = .201, p=.654$), age ($\chi^2 (6) = .926, p= .988$), duration ($\chi^2 (4) = 2.152, p=.708$) and education

($\chi^2(3) = 3.15, p = .654$) found that there was no significant difference between directors and supervisors.

Exploratory Factor Analysis (EFA)—Roles of Directors

Exploratory factor analysis was conducted since the questionnaires developed for this study had not been tested in the target population. Principal component analysis was employed to extract factors. Factors whose eigenvalue over 1.0 were retained. Accordingly, four factors were retained. Factor 1 explains 43.81 percent of total variance; the 4 retained factors all represented 67.19 percent of the variance of 21 variables.

A direct oblique rotation was conducted to generate factor loadings which indicate the correlation between an original variable and its factor. A higher loading represents a strong relationship between variables. For interpretation purposes, researchers can choose factor loading with an absolute value of .40 or greater (Field, 2005; Pett, Lackey & Sullivan, 2003; Steven, 2002). One variable failed to load significantly on any factors and it was eliminated (Pett et al., 2002). After deleting these one variable, there were 20 variables remained and the model was changed. Therefore, there was a need to re-calculate the factor loadings (Hair et al., 2006).

Table 3 describes the second round of the factor analysis of roles of directors. Four factors were again retained. The percentage explained by each of four factors was 43.34%, 10.45%, 7.93% and 5.68 % respectively. Variables all had factor loadings above .40. The overall Cronbach α was .926. Within each of these scales, the α ranged from .664 to .911. These coefficients were considered to be satisfactory (Hair et al., 2006). In addition, the highest correlation coefficient between factors was .560. It was therefore to warrant oblique rotation again (Tabachnick & Fidell, 2001).

Insert Table 3 Here

The first factor explains 43.34 percent of the variance and has eight roles. It contains allocating the annual budget, ensuring a vision, assessing the annual plan, ensuring a mission, examining the overall strategy, assessing the financial policy, assessing sport services provided to members/society and responding to members/community needs. The first factor

focuses on roles regarding organisational tasks. They are fundamental roles that directors perform to make their organisations function. Therefore the first factor is named as *Task*. The second factor is named *Board Meetings*. Three roles, electing permanent board, electing the board chairman and attending regularly the board meeting, are all related to the board meetings. The three roles account for 10.45 percent of variance.

The third factor has seven roles and account for 7.93 percent of variance. Roles in the third factor concern with how directors govern the general secretary and how directors govern themselves. Assigning work to the general secretary, evaluating the general secretary's performance, hiring the general secretary and ratifying decisions made by the general secretary in hiring paid staff are about governing the general secretary. Directors evaluate their own performance, raise funds for their organisations and ratify directors' resignation are self management of directors. Therefore, this factor was named as *General Secretary/Directors Management*.

The last factor explains 5.68 percent of variance. This factor includes two roles with a focus on identifying and satisfying the needs of members and society. The two roles are intertwined since the organisation's members and society are the target population and both are viewed as stakeholders of nonprofit sport organisations. A nonprofit sport organisation is established to serve its stakeholders and provide services to them (Blair, 1995; Clark, 1998). Therefore it is labels as *Stakeholder*.

EFA—Roles of Supervisors

Table 4 presents the factor matrix for roles of supervisors. Principal component was employed to extract factors. Factors whose eigenvalue over 1.0 were retained. Direct Oblimin rotation was again employed to rotate matrix. There were two factors having eigenvalues greater than 1. Factor 1 explains 52.51 percent of total variance; Factor 2 accounted for 10.48 percent of total variance. The two factors represented 62.98 percent of the variance of 10 variables. Variables with a factor loading of .40 and above were considered. One variable had a cross loading on Factor 1 and Factor 2. Kline (2000) suggested that because of difficulty in interpreting the scale, cross-loading variables should be eliminated. In addition, Hair et al.

(2006) argued that researchers should take action on variables with cross loading. Possible actions include ignoring the cross-loading and deleting cross-loading. These cross loadings were too significant to be ignored. Therefore, the action taken by this research was to remove this variable. After deleting one variable, there were nine variables remained and the model was changed. Therefore, there was a need to re-calculate the factor loadings.

Table 4 describes the second round of the factor analysis of roles of directors. Two factors were again retained. The percentage explained by each of two factors was 53.16% and 11.59% respectively. Variables all had factor loadings above .40 and cross loadings were not found. The overall Cronbach α was .885. Within each of these scales, the α were .867 and .770 respectively. These coefficients were considered to be satisfactory. In addition, the correlation coefficient between two factors was 0.605. It was therefore to warrant oblique rotation again (Tabachnick & Fidell, 2001).

Insert Table 4 Here

The first factor explains 53.16 percent of the variance and included five roles that are concerned with whether funds and properties are used properly, reviewing annual budgets, reviewing final accounts, and ratifying supervisors' resignation. It therefore is labeled as *Funds/Supervisors Monitor*. Factor 2 explains 11.59 percent of the variance and consisted of four roles and includes regularly attending board meetings, electing permanent supervisors, presenting supervising results in the general conference and presenting supervising results in board meetings. As these roles pertain to the overall organisation—making all members know how well organisational funds have been used by the board of directors and the general secretary. Supervisors themselves also complete two compulsory organisational activities. It is appropriate to label this factor as *Mission*.

DISCUSSION AND CONCLUSIONS

Several observations can be made based on this study. First, the survey data generated four factors of roles of directors and two factors of roles of supervisors. The roles of directors and supervisors in a dual board system appear to be different. Overall, the main role played by directors is to help organisations function; supervisors were mostly involved in monitoring

tasks. Compared to supervisors, directors work more closely with the secretary/executive department. Most roles supervisors perform are to supervise the “team” formed by directors and the secretary’s department and are not involved in managerial activities. The board of supervisors assumes the role of a “third party” in order to not become part of the team and supervise the team independently. Organisations with a dual board system can use this information to accordingly design training courses for both current and new board members to more effectively perform their roles. Second, there are some differences in roles of directors between the dual board system and the unitary system. For example, assigning work to the general secretary and electing the board chairman are performed by directors in a dual board system and was not identified in Inglis et al.’s (1999) framework and previous literature. Similarly, some roles of supervisors, such as supervising whether properties are bought and used properly, were not found in Inglis et al.’s (1999) framework nor in previous literature based on a unitary board system. Our study found that roles of board in a unitary board system can not be fully applied to those in a dual board system.

Third, several roles, such as electing the board chairman and attending board meeting, are performed by both directors and supervisors. This suggests that board members do actually conduct the descriptive roles described by Taiwan’s Civil Organisation Law. Fourth, this research also shows that the board of directors is a “firewall” to protect organisations from being misled by the secretary/executive department and the board of supervisors is a “final firewall” to defend organisations from being misgoverned by the “team”. That is, there is a “dual protection system” in the dual board system. Organisations with a unitary board system have no internal mechanism to monitor directors. And what organisations can do is to trust directors (Mason, Thibault, & Misener, 2006). Therefore, the main feature differentiating these two board systems is whether directors are supervised by an internal system. Finally, the results demonstrate that there is no significant difference in board composition between directors and supervisors; in other words, the backgrounds of directors and supervisors are not different. Directors are also qualified to be elected as supervisors and vice versa. Within boards, the majority of board members are male and older than 50 years of age. The reason

for this might be related to the fact that in the Chinese society, men are more commonly found in business roles. All board members also had a full time job. While being a nonprofit board member is not financially compensated the role might assist board members in building a business network and furthering their financial potential. In addition, board members are required to govern their organisations. It appears that there is an expectation of a substantial amount of work and social experience to be obtained before an individual can be considered to have the ability to govern. Future research can further investigate the rationale for particular board composition and if this is related to board effectiveness. Moreover, results of this research could inform the government, public and taxpayers in Taiwan about governance practices of nonprofit sport organisations. They can further examine whether nonprofit sport organisations are governed properly. Countries who intend to establish a dual board system could use these results to regulate board's roles.

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Table 1 Board Roles in different types of organisations

| Type of Organisation | Board roles |
|-------------------------|---|
| Profit Organisation | <ul style="list-style-type: none">• Develop organisation's missions and policy• Ratify strategies• Appoint, advice, replace, reward and evaluate CEOs/Managers• Oversee managerial activities• Report to owners/shareholders• Manage the relationship with external environment• Advance organisational image• Assure related legislations are met• Financial management |
| Non-profit organisation | <ul style="list-style-type: none">• Determine organisation's mission and policy• Strategic planning• Monitor and assess programs and services• Appoint, monitor, evaluate, reward, replace and work with the executive• Assure that the organisation meet all legal requirements• Secure financial resources and manage financial matters• Manage the relationship with external environment• Appraise itself |
| Sport Organisation | <ul style="list-style-type: none">• Develop, formulate and monitor strategies• Formulate Policies• Enhance sports organisations' public image• Review and monitor managerial activities and performance• Report to members and stakeholders• Employ, evaluate, provide advice and reward executives• Ensure organisational compliance with related legislations• Manage financial resources• Develop a risk managing plan• Self-assess• Initiate board development activities |

Table 2 Respondent Characteristics

| Characteristics | Frequency | % of Frequency | Frequency | % of Frequency |
|--------------------------|------------|----------------|--------------|----------------|
| | (Director) | (Director) | (Supervisor) | (Supervisor) |
| Gender | | | | |
| Male | 148 | 93.7 | 95 | 92.2 |
| Female | 10 | 6.3 | 8 | 7.8 |
| Age | | | | |
| 34 and under | 3 | 1.9 | 2 | 1.9 |
| 35-39 | 10 | 6.3 | 6 | 5.8 |
| 40-44 | 12 | 7.6 | 10 | 9.7 |
| 45-49 | 29 | 18.4 | 18 | 17.5 |
| 50-54 | 41 | 25.9 | 30 | 29.1 |
| 55-59 | 24 | 15.2 | 15 | 14.6 |
| 60 and over | 39 | 24.7 | 22 | 21.4 |
| Duration | | | | |
| under 1 yr | 9 | 5.7 | 10 | 9.7 |
| 1 yr-under 4yrs | 46 | 29.1 | 29 | 28.2 |
| 4 yrs- under 8 yrs | 46 | 29.1 | 27 | 26.2 |
| 8 yrs- under 10 yrs | 13 | 8.2 | 11 | 10.7 |
| 10 yrs and over | 44 | 27.8 | 26 | 25.2 |
| Education | | | | |
| Under high school | 5 | 3.2 | 4 | 3.9 |
| High school | 38 | 24.1 | 28 | 27.2 |
| College/University | 61 | 38.6 | 47 | 45.6 |
| Above College/University | 54 | 34.2 | 24 | 23.3 |

Table 3 Factor Matrix for Roles of Directors

| Variables | Factor | | | |
|---|--------------------------|---------------|--|--------------|
| | Task | Board Meeting | General Secretary/Directors Management | Stakeholder |
| | (.911) ^a | (.664) | (.890) | (.820) |
| Allocate the annual budget | <u>.809</u> ^b | .102 | -.025 | .355 |
| Ensure a vision | <u>.806</u> | -.124 | -.090 | -.113 |
| Assess the annual plan | <u>.753</u> | .215 | .154 | -.182 |
| Ensure a mission | <u>.738</u> | -.182 | -.106 | -.090 |
| Examine the overall strategy | <u>.736</u> | .104 | .024 | -.254 |
| Assess the financial policy | <u>.702</u> | -.044 | -.207 | .224 |
| Assess sport services provided to members/society | <u>.670</u> | .046 | -.099 | -.186 |
| Respond to members/community needs | <u>.583</u> | -.057 | -.247 | -.220 |
| Elect permanent board members | -.087 | <u>.803</u> | -.162 | -.003 |
| Elect the board chairman | .070 | <u>.750</u> | -.174 | .202 |
| Attend regularly the board meeting | .067 | <u>.663</u> | .157 | -.179 |
| Assign work to the general secretary | -.005 | -.053 | <u>-.865</u> | .043 |
| Evaluate the general secretary's performance | .024 | .169 | <u>-.812</u> | -.047 |
| Hire the general secretary | -.064 | .151 | <u>-.795</u> | -.199 |
| Evaluate the board's performance | .079 | .038 | <u>-.743</u> | -.008 |
| Raise funds | .102 | -.120 | <u>-.634</u> | -.203 |
| Ratify decisions made by the general secretary in hiring paid staff | .335 | -.210 | <u>-.589</u> | .135 |
| Ratify directors' resignation | .112 | .384 | <u>-.542</u> | .203 |
| Satisfy the need of members/society | .207 | .049 | -.143 | <u>-.742</u> |
| Identify the needs of members/society | .224 | .016 | -.285 | <u>-.674</u> |
| Eigenvalues | 8.668 | 2.089 | 1.586 | 1.135 |
| Percentage variance | 43.34 | 10.45 | 7.93 | 5.68 |

^a Reliability Coefficient^b Factor Loading

Table 4 Factor Matrix for Roles of Supervisors

| Variables | Factor | |
|---|---------------------------|---------|
| | Funds/Supervisors Monitor | Mission |
| | (.867) ^a | (.770) |
| Review annul budgets | <u>.909</u> ^b | -.106 |
| Supervise whether funds are used properly | <u>.874</u> | -.002 |
| Review final accounts | <u>.774</u> | .126 |
| Ratify supervisors' resignation | <u>.726</u> | -.167 |
| Supervise whether properties are bought and used properly | <u>.689</u> | .239 |
| Attend regularly the board meeting | -.305 | .974 |
| Present supervising results in the general conference | .130 | .742 |
| Present supervising results in the board meeting | .144 | .705 |
| Elect permanent supervisors | .317 | .441 |
| Eigenvalues | 4.784 | 1.043 |
| Percentage variance | 53.16 | 11.59 |

^a Reliability Coefficient

^b Factor Loading